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**Rep. Rush Holt's
Roundtable Discussion
on
Bush Administration Proposal to Privatize Social Security**

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Roundtable Discussion

Bush Administration Proposal to Privatize Social Security

Social Security Is Group Insurance, Not an Individual Savings Plan

- The purpose of Social Security is to provide workers with an insurance fail-safe in old age and a complement to personal savings
 - Regardless of how their careers go or how the stock market rises and falls, workers know that they will have a guaranteed income when they retire
- Social Security currently provides core retirement benefits and income security to 36 million seniors, 60% of them women
- How it works:
 - Payroll tax of 6.2% collected from employees, collected from employers
 - Provides benefits to retired workers and spouses, to underage children of deceased workers, and to disabled workers – about 47 million people now
- Replaces about 40% of monthly earnings of average worker -- \$1,185 a month today (a little more than \$14,000 a year)
 - Replacement rate is higher for low paid workers – a minimum wage worker earning about \$10,000 a year and retiring today would receive \$7,500 a year in benefits
 - 7 million low income retirees rely completely on SS for retirement income
 - SS has been important in reducing old age poverty
 - Although benefits are higher – high paid worker retiring today would receive about \$18,000 a year in benefits – the replacement rate for these workers is lower than 40%
 - But, high earners typically have personal savings or pensions
- Women are more dependent on Social Security benefits than men
 - More likely than men to have been low wage workers
 - Less likely than men to have a pension – fewer than a third of women receive pensions, compared with almost half of men
 - More likely to be the surviving spouse and to face very old age with family assets depleted by a husband's illness
 - SS benefits become even more vital to women's income security as they grow older
- Social Security has low administrative expense and near universal participation – it's a model insurance program

Bush Administration Plan

- In flux – President Bush hasn't spoken plainly about what he plans to do
- Still, he has repeatedly pointed to the proposal of his 2001 Social Security Commission, which presented the blueprint for privatizing social security
- Two parts to the plan (Model 2 of Bush 2001 Commission to Strengthen Social Security)

- The one they talk about: Divert part of Social Security payroll tax to private accounts
- The one we never hear about: Slash social security benefits to future retirees
- Divert part of SS payroll tax to private accounts
 - Allow workers under 55 to divert 4 percentage points of the tax into private accounts up to a maximum of \$1,000 a year
 - Money could be invested in limited choice of mutual funds
 - Turned into an annuity at retirement that pays fixed monthly amount until worker dies
 - Won't make anyone rich – a lucky worker who sees the private account grow to \$100,000 will receive a modest \$500 a month
- Index future benefits to prices, not wages
 - Sounds like an innocent change, but it is really pernicious – it will lead to deep cuts in payouts to retired workers
 - Social security is intended to replace about 40% of earnings at retirement
 - Average retired worker today gets \$1,184 a month
 - If Social Security checks had been indexed to price inflation and not to wages ever since the program started in 1935, the average retired worker today would get only \$425 a month
 - The effect of price indexing is so extreme that
 - All future retirees will receive substantially less benefits than currently promised
 - Average worker retiring in 2042 is currently promised \$1,478/mo.
 - If we switch to price indexing, average worker retiring in 2042 would get \$1,098 – 40% less than promised
- Both: Divert 4% SS tax to private accounts AND index benefits to prices
 - *Guaranteed* monthly benefit in 2042 goes from currently promised \$1,478 to \$1,098 from index switch & to \$696 after reduction for private account
 - *Total* benefit depends on how well investments in private accounts do – whether the market goes up or down, and by how much
 - On optimistic assumptions, could yield \$500 to \$700 in 2042
 - Even if the worker is lucky with investments, total benefit under the new formula would be less than the \$1,478 currently promised
 - For unlucky investor, the guaranteed benefit is only \$696 a month
 - Popular impression is that any fool can make money in the stock market
 - True, perhaps, during the bubble years – but anyone who invested in a DOW or NASDAQ index fund on Jan. 1, 2000 still hasn't recovered their losses – both indexes are still down since then
 - Stock market is risky – has its place, but NOT for insurance
- Funny money financing of the Bush Social Security privatization
 - Govt. will need to borrow lots of money if SS is partly privatized as Bush wants – at least \$160 billion a year and up to \$2 trillion over 10 years
 - Diverting payroll taxes to private accounts will open up a hole right now as revenues decrease while Social Security continues to pay promised benefits to current retirees

- So, the federal government will have to add to the already big annual deficit, expected to be \$350 billion in FY 2005 (incl. costs of Iraq War)
- Bad for financial markets, interest rates, economy

Is Social Security the Titanic, about to Hit an Iceberg and Sink?

- That's the refrain of Bush Administration spokespeople, but it's NOT true
- Social Security is completely prepared for the baby boomers to retire
 - President Reagan took two steps back in 1983 that take care of this problem (with advice from Alan Greenspan, now Federal Reserve Chairman)
 - Gradually raised retirement age from 65 to 67 – this year, 65 and 6 months
 - Increased Social Security taxes so system takes in more revenue than it pays out in benefits
 - As a result, currently have hefty surpluses in the SS Trust Fund
 - SS will be able to draw down these assets to pay benefits when boomers retire – assets are Treasury securities, not junk bonds
 - As planned, these assets will be used up as the baby boomers retire
- The so-called “iceberg” threatening Social Security with imminent crisis requiring drastic action is as insubstantial as the threat from Iraqi WMDs
 - According to the Social Security Administration, there is no question about whether SS can pay full benefits to all retirees through 2042
 - According to the non-partisan Congressional Budget Office, currently led by a former member of President Bush's Council of Economic Advisors, there is no question about whether it can pay full benefits through 2052
 - So, definitely no problem for at least 27 years – better than any other government program, and can anyone really see further ahead than that?
- Only a crisis could lead Americans to undo SS, so one is being manufactured

Should We Be Concerned about Social Security?

- The SS trustees are required by law to make projections for 75 years
- Not a prediction – it's too hard to see the future, but several scenarios
 - Some show no problem, some a small problem – but not 'til after 2042
- Trustees have to guess what will happen to immigration, to the birth rate, to life expectancy and to wages
 - “Problem” scenario assumes decline in birthrates, tapering off of immigration, medical “miracles” that extend life expectancy, slower wage growth in future than past
- If U.S. economy and population continue to grow at their historic rates over the next 75 years, there won't be a shortfall
 - Social Security will be completely solvent for the entire period
 - No need to do anything at all – no problem with SS
- Pessimistic scenario of SS trustees => Small shortfall over next 75 years
 - 1.89% of payroll over next 75 years – a small gap although the aggregate number SOUNDS big, \$3.7 trillion over 75 years

- But this averages out to less than \$50 billion a year – easy to close gap
- Total is less than the temporary tax cut for the wealthy that Bush administration passed in 2001 and now wants to make permanent
- Suppose nothing is done and this shortfall actually materializes. What will happen to retirees after 2042?
 - Social Security can pay out 70% of promised benefits forever
 - The average retired worker would get \$1,080 a month in 2042, and by 2075 would get \$1,362 (in today's dollars) – more than today's average retiree but less than currently promised
 - This is \$13,000 in 2042, \$16,344 in 2075 – a lot more than the “nothing” the Bush Administration tells young people to expect
- What are the small steps we can take today to close the gap of 1.89% of payroll so retirees can get full currently promised benefits
 - Eliminate the cap: workers pay SS payroll taxes on only the first \$90,000 of wages; raise this to \$150,000 or eliminate it altogether
 - Small increase in payroll tax

So, Why Privatize Social Security

- Ideology: Some people just don't believe in insurance and guaranteed income security for all workers
 - Don't believe we have a minimum of shared responsibility for each other
 - Don't believe in a social safety net that provides the foundation on which individuals can build their own security
 - Don't recognize an obligation to give back to keep America great
 - These same objections were raised in 1930s, when SS was first passed
- Wall Street windfall: According to the Social Security Administration, privatizing SS could pump \$54 billion a year into the markets
 - Equal to about one-fourth of the current annual inflow to markets
 - Would drive up stock market prices – good for those who ALREADY own stock, but not for those just buying stock
 - Wall St. firms will pocket fees on these investments
 - The net present value of these fees over the next 75 years is \$940 billion
 - Equal to more than 25% of the projected short fall in social security
 - Government will transfer this money to private financial managers and mutual fund companies instead of using it to close the gap
 - Largest windfall gain in American financial history
 - As AFL-CIO President John Sweeney put it: “Social Security privatization is a risky scheme for America, but a sure bet for the financial-services industry.”

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